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MINISTRY OF STEEL & HEAVY INDUSTRIES

(Department of Iron & Steel)

RESOLUTION

New Delhi, the 7th September 1962

STEEL RETENTION PRICES

No. SC(C)-2(27)/62.—The uniform retention prices for steel payable to the Tata Iron & Steel Co. Ltd. and the Indian Iron & Steel Co. Ltd. were enquired into by the Tariff Commission in 1955. In their Resolution No. SC(A)-2(149)/55 dated the 1st of February 1956, Government accepted the Tariff Commission's recommendation that the average retention price payable to the two major producers should be fixed at Rs. 393 per ton. Government also agreed to examine, on merits, claims for escalations in retention prices resulting from changes in railway freights, changes in statutory prices of coal and other fuel etc. As a result of the escalations allowed, the basic retention prices fixed in 1956 were increased under the Escalator Clause four times and the weighted average escalated retention price in force on the 31st of March 1960 was Rs. 474.59 per ton including excise duty. The prices then fixed were for a period of five years from 1955-56 to 1959-60.

2. A reference was made to the Tariff Commission by the Government on the 13th of March 1961 to enquire and recommend, having regard to the various agreements with the steel companies, (i) what the normal retention prices of steel should be for the period from the 1st of April 1960 to the 31st of March 1962; and (ii) the special element that should be allowed in the price in addition for payment by the Tata Iron & Steel Co. Ltd. and the Indian Iron & Steel Co. Ltd. of interest on and repayment of the special advances made to those companies by Government.

3. A similar reference regarding the fixation of pig iron prices for the period 1st April 1960 to 31st March 1962 was made on the 1st of August 1961. Meanwhile, after having a preliminary cost examination of the Tata Iron & Steel Co. Ltd. and the Indian Iron & Steel Co. Ltd. undertaken by the Cost Accounts Branch of the Ministry of Finance, Government decided to increase the retention prices of steel to an average of about Rs. 512 per tonne. This price was provisional and was subject to adjustments in the light of Government's decision on the recommendations of the Tariff Commission.

4. The Commission having conducted an enquiry submitted their report at the end of April 1962. The main recommendations of the Commission are as follows:—

- (i) The average fair retention price of saleable steel (inclusive of the special element for payment of interest on and repayment of special advances) for 1960-62 should be Rs. 550 per tonne. This recommendation was based on an assessment of a fair or standard block on the basis of a comparative study of the capital blocks of the existing units. The Tariff Commission recommended that for the price period 1960-62, a capital block of Rs. 1300 per tonne of saleable steel should be reasonably representative;
- (ii) A return at 8% on the representative block of Rs. 1,300 per tonne of saleable steel and interest on an estimated working capital at six months works cost equivalent at 5% should be allowed;
- (iii) Based on an equated payment spread over a period of 20 years, the special element allowed in the retention price for payment of interest on and repayment of the special advances should be Rs. 8 per tonne of saleable steel (this element is included in the price of Rs. 550 per tonne);
- (iv) The fair retention price of steel ingots for 1960-62 should be Rs. 344 per tonne, inclusive of the special element of Rs. 8 per tonne for payment of interest on and repayment of the special advances;
- (v) The price of pig iron recommended by the Commission means roughly an increase of Rs. 3 per tonne over the existing prices.

5. There are other recommendations of a general kind which the Commission have made with the object of improving the production of iron and steel in the country.

6. After carefully examining the recommendations of the Commission, the Government have come to the conclusion that for the period 1960-62 there is insufficient justification for accepting a block of Rs. 1,300 per tonne. The Government have, therefore, decided to base the retention prices on a block of Rs. 1,176 per tonne. This figure has been arrived at on the basis that the plants should have worked at 100 per cent of capacity instead of 90 per cent optimum mentioned by the Tariff Commission and after excluding from the capital block the special advances paid to the companies by Government. The Government also consider that the working capital provision allowed at six months of the works cost equivalent is rather high and feel that a provision on the basis of four months works cost should be adequate. Finally, in revision of their earlier decision taken in 1959, the Government now consider that it is not necessary to provide an element in the retention price for the payment of interest on and the repayment of the special advances. The agreements with the companies provide for an alternative method of repayment of a part of the special advances with interest, namely an issue of share capital by the companies, at such time or times as the Government of India, may in agreement with the companies, decide. This will be considered further by Government. Government have accordingly decided to exclude the element of Rs. 8 per tonne recommended by the Commission on this account from the retention price to be fixed. As a result of these decisions the average retention price of steel produced by the main producers, whether in the private or in the public sector, will be fixed at a uniform rate of Rs. 522-50 per tonne for the period 1st of April 1960 to the 31st of March 1962, which means an increase of Rs. 10-50 per tonne over the provisional price fixed earlier, instead of the increase of Rs. 38 per tonne recommended by the Tariff Commission. The detailed retention prices recommended by the Commission for different categories of steel will be scaled down suitably in accordance with the above decision and will be announced shortly. Lest there should be any misunderstanding, Government would like to make it clear that the controlled price of various categories of steel for sale to the public will not be raised as a result of this decision to increase the retention price payable to the main producers.

7. As regards the retention price of steel ingots, for similar reasons Government propose to fix this price at Rs. 326 per tonne. Similarly for pig iron, after making a deduction on account of the reduced provision for working capital, Government propose to fix a retention price which is Re. 1 per tonne lower than the price recommended by the Commission.

8. The Government have also considered the other general recommendations of the Commission regarding regular supply of raw materials (particularly coal), improvement of sintering and ore handling facilities, more regular transport arrangements for both raw materials and finished products, adoption of latest technological advances etc. They have accepted these and will also commend them to the steel plants for implementation.

9. The recommendations of the Commission related only to the period 1st of April 1960 to 31st March 1962. A view has also to be taken of the prices to be fixed after the 1st of April 1962. Government have decided that the prices to be fixed for the period 1960-62 should also be applicable *provisionally* beyond the period 1st April 1962, subject to certain changes which are necessary on account of (a) the recent increase in the statutory price of coal and (b) the increase in the railway freight from July 1st, 1962. The effect of these changes will be announced shortly. The final prices to be fixed for the period after 1st April, 1962 will be decided after further consideration.

#### ORDER

Ordered that a copy of this Resolution be communicated to all concerned and that it be published in the Gazette of India extraordinary.

N. N. WANCHOO, Secy.

